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STUDY PROJECT

THE COMMISSION ON MERCHANT MARINE AND DEFENSE A PERSONAL ASSESSMENT

BY

LIEUTENANT COLONEL MICHAEL E. THOMAS, AV

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Unclassified

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) The Commission on Merchant Marine and Defense: A Personal Assessment		5. TYPE OF REPORT & PERIOD COVERED
7. AUTHOR(s) LTC Michael E. Thomas		8. CONTRACT OR GRANT NUMBER(s)
9. PERFORMING ORGANIZATION NAME AND ADDRESS U.S. Army War College Carlisle Barracks, PA 17013-5050		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
11. CONTROLLING OFFICE NAME AND ADDRESS		12. REPORT DATE 30 April 1990
		13. NUMBER OF PAGES 27
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		15. SECURITY CLASS. (of this report) Unclassified
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report) Approved for public release; distribution is unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) The Commission on Merchant Marine and Defense, also known as the Denton Commission, was charged by Public Law with studying the problems relating to the transportation of cargo and personnel for national defense purposes during time of war and national emergency. Specifically, they were tasked to analyze the ability of the merchant marine industry to meet the wartime and mobilization requirements of the nation. This paper will analyze the four reports of the Denton Commission, collectively known as the Denton Report, assess the Commission's analysis of the problem, critique key recommendations,		

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USAWC MILITARY STUDIES PROGRAM PAPER

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THE COMMISSION ON MERCHANT MARINE AND DEFENSE
A PERSONAL ASSESSMENT

AN INDIVIDUAL STUDY PROJECT

by

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30 April 1990



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DISTRIBUTION STATEMENT A: Approved for public release; distribution is unlimited.

ABSTRACT

AUTHOR: Michael E. Thomas

TITLE: The Commission on Merchant Marine and Defense:
A Personal Assessment

FORMAT: Individual Study Project

DATE: 30 April 1990 PAGES: 24 CLASSIFICATION: Unclassified

The Commission on Merchant Marine and Defense, also known as the Denton Commission, was charged by Public Law with studying the problems relating to the transportation of cargo and personnel for national defense purposes during time of war and national emergency. Specifically, they were tasked to analyze the ability of the merchant marine industry to meet the wartime and mobilization requirements of the nation. This paper will analyze the four reports of the Denton Commission, collectively known as the Denton Report, assess the Commission's analysis of the problem, critique key recommendations, and provide my recommendations and conclusions to the dilemma. (S)

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**THE COMMISSION ON MERCHANT MARINE AND DEFENSE
A PERSONAL ASSESSMENT**

CHAPTER I

INTRODUCTION

The United States is currently reaping the benefits of our successful long term Soviet "containment" policy. PEACE is breaking out all over. However, the role of the military remains essentially unchanged, to deter war and if unable, be ready to fight and win. As the threat of war diminishes, it is inevitable that the size, composition, disposition, and role of the U.S. military will undergo significant change. What will not change is the need for transportation, both airlift and sealift, to deploy those forces in response to crises worldwide. This demand will assume even greater significance as overseas forces are withdrawn to the United States.¹

Optimistically, we hope that the Soviet Union will continue with democratic reforms and free elections. However, there are grounds for caution. The potential remains for regression to a society that is once again confrontational as economic chaos and a rising tide of nationalism spread throughout the Soviet Republics. This domestic turmoil has been aggravated by ethnic conflict, economic inefficiency, political instability, and nationalistic fervor throughout Eastern Europe, creating

uncertainties about the future of President Gorbachev and the long term intentions of the Soviet Union.²

The United States and its allies also face potential threats in the Far East and Southwest Asia. North Korea remains a closed society, its military posed like a dagger ready to thrust into the heartland of South Korea. China, likewise, has retreated back into her shell after the rioting and bloodshed in Tienanmen Square. Unrest and domestic turmoil continues to plague the Philippines, with U.S. basing rights becoming more and more questionable as pressure increases on the Aquino government to solve internal problems. Vietnam, despite withdrawing its troops from Cambodia, remains a major player in Southeast Asia politics. In Southwest Asia, unrestricted access to Middle Eastern oil remains a vital national interest. Yet, the animosity between Israel and the Arab States, and among the Arabs themselves have made the area one of continual conflict as each nation strives to assume the role of regional power.

Strategic mobility remains unquestionably the linchpin of a viable U.S. military strategy. The United States, guarded by the Pacific on the west and the Atlantic on the east, has grown, expanded, and prospered, protected from the land wars which have ravaged European and Asian nations throughout the centuries. However, these same oceans, which protected America in years past, present the greatest obstacle to the projection of power in the future. The presence of our military in NATO-Europe and Korea has been a successful deterrent for four decades, but our ability to project, sustain, and reinforce our forces in combat

has been of equal importance and was proven again in Grenada and Panama. Regardless of the theater of war, reinforcement by both land and air forces are essential to success. Active Army, Air Force, and Marine units, plus major elements of the National Guard and Reserve would have to be moved and supplied by our global transportation network. Although airlift is of vital importance during the initial stages of any conflict, we still depend upon sealift to provide nearly 95 percent of our needed equipment, supplies, and ammunition during any prolonged conflict. Sealift must be capable of immediately responding, first to move heavy forces, then to ensure the sustainment of all our military forces.

Yet, our U.S. flag merchant marine has steadily deteriorated over the last forty years; with our civilian seagoing merchant fleet declining from more than 1,400 ships to less than 430 and our National Defense Reserve Fleet (NDRF) declining from 1,800 to about 240 ships; our share of ocean-borne foreign commerce declining from 35 percent to 4 percent; and the number of personnel engaged in maritime industry deteriorating more than 85 percent from a World War II high of nearly 100,000. Additionally, the military useful equipment capability of the fleet, those vessels capable of transporting non-containerized military equipment such as tanks, personnel carriers, trucks, etc., has declined significantly as well.³

Meanwhile, the Soviet commercial fleet has expanded until it is ranked second in the world, with more than 2,450 ships, all with high military utility, organized and operating under a joint

military and civilian shipping team. What is as significant however is that the Soviet commercial fleet is regularly integrated with their military counterparts in naval exercises, truly forming a combined civilian-military naval apparatus, practicing the same techniques they will implement in the event of hostilities.⁴

Despite numerous Maritime Acts and executive and legislative interest, the condition of the United States merchant marine fleet has continually worsened, falling from first in the world to tenth. Despite recent improvement, or more properly stated, slowing the rate of decay, the maritime industry remains desperately in need of assistance. Military leaders; to include Vice Admiral Kent Carroll, former Commander of the Military Sealift Command; General Duane Cassidy, Commander-in-Chief, U.S. Transportation Command; and Admiral William Crowe, former Chairman of the Joint Chiefs, have all expressed similar views regarding the apathetic condition of our merchant marine fleet and industry.

Due to the worsening condition of our merchant marine capabilities the Commission on Merchant Marine and Defense, hereafter referred to as the Denton Commission, was established by public law of October 19, 1984 and constituted on December 5, 1986. Public Law 98-525 stated:

The Commission shall study problems relating to transportation of cargo and personnel for national defense purposes in time of war or national emergency, the capability of the United States merchant marine to meet the need for such transportation, and the adequacy of the shipbuilding mobilization base of the United States to meet the needs of naval and merchant marine ship construction in time of war or national emergency.

Based on the results of the study, the Commission shall make specific recommendations, including recommendations for legislative action, action by the executive branch, and action by the private sector, as the Commission considers appropriate to foster and maintain a United States merchant marine capable of meeting national security requirements.⁵

Denton Commission Members were:

-Former Senator Jeremiah Denton of Alabama, sworn in as the delegate of the Secretary of Navy to be the Chairman.

-Mr. Edward E. Carlson; Chairman Emeritus, United Airlines.

-Mr. William E. Haggett; President and CEO of Bath Iron Works Corporation(a shipbuilding company).

-Admiral James L. Holloway,III, USN(Ret.); former Chief of Naval Operations.

-Mr. Joseph Sewall; Chairman of the Board of the Maine Maritime Academy.

-Mr. Shannon J. Wall; Executive Vice President, District #1, Marine Engineers Beneficial Association/National Maritime Union.

-Mr. John A. Gaughan; Administrator of the Maritime Administration, was sworn in as a member ex officio.

The Denton Commission held ten public and six regional hearings, collecting hundreds of pages of testimony and publishing four reports. The reports analyzed the nature and magnitude of the problem and recommended first general and then specific solutions to those problems.

This paper will analyze the Denton Report, assess the Commission's analysis of the problem, critique key recommendations, and finally provide my conclusions and recommendations.

ENDNOTES

1. "Strategic Mobility: Getting There is the Big Problem," Special Report of the Association of the United States Army, December 1989, p. 5.

2. Carl E. Vuono, The United States Army-A Strategic Force, for the 1990s and Beyond, January 1990, p. 6.

3. "Strategic Mobility: Getting There is the Big Problem," Special Report of the Association of the United States Army, December 1989, p. 12.

4. Ibid., p. 12 .

5. Jeremiah Denton, et al., First Report of the Commission on Merchant Marine and Defense: Findings of Fact and Conclusions, p. 5.

CHAPTER II
REQUIREMENTS AND CAPABILITIES
A SUMMARY OF THE DENTON COMMISSION'S ANALYSIS

The Denton Commission based its analysis upon the current wartime planning scenario agreed upon by the Department of Defense and the Joint Chiefs of Staff (Defense Guidance). They postulate a prolonged, global, conventional, three-theater war. They included NATO-Europe, Southwest Asia, and although not specifically stated, I assume the Pacific theater in their analysis. They also assumed the United States would have to "go it alone" in theaters such as Southwest Asia where assistance from allies is unlikely.¹

Sealift-

To meet the year 2000 requirements 440 "standard" dry cargo ships would be required in addition to Allied support to transport 10.6 million short tons of unit equipment and resupply. At least 350 of those vessels should be unit equipment capable. The Denton Commission projects a shortfall of approximately 140 ships, primarily those that are unit equipment capable.

That shortfall is exacerbated due to the age of the Ready Reserve Fleet (RRF), inactive ships maintained by the Navy to support contingencies within 5-10-and 20 days.

A shortage of unit equipment ships currently exists preventing us from meeting global war requirements in all theaters. However, sufficient sealift does exist to meet resupply and ammunition requirements. By the year 2000, only the resupply and ammunition requirements of NATO could be met.

Current and projected tanker requirements would require significant reliance on Effective U.S. Controlled (EUSC) and NATO assets. Even with the contribution expected from NATO, other allies, and the EUSC fleet, there would be a tanker shortfall in a year 2000 global war scenario.²

Our allies have suffered many of the same problems we encounter as more and more of their vessels are reflagged. The deterioration has become so serious, a 30 percent decrease in ships over the last 10 years, that NATO's agreement to provide 400 dry cargo ships, 60 tankers, and a troop sealift capability to reinforce Europe is jeopardized. The trend towards commercially viable containerized cargo ships and supertankers seriously hampers military deployment and resupply.³

Manning-

A global war 2000 scenario would require a minimum of 31,000 seamen with an additional 7,100 required to support domestic shipping requirements. Because of nonstandard ships and the older, often unique or obsolescent equipment found in the Ready Reserve Fleet required to be manned, actual requirements could be higher.⁴ The Ready Reserve Fleet activation schedule doesn't allow for refresher training.

We currently have less than 24,700 seamen filling 11,100 seagoing billets and the force is expected to decrease by approximately 50 percent by the year 2000 (Billets are normally manned at greater than 100 percent of authorized to maintain a 24 hour capability). Over half of our current seamen are older than 50 years of age. Unless action is taken there will be a

projected shortfall of 12,000 seaman by the year 2000.

Shipbuilding and Repair Industry-

In the event of war or national emergency, the shipbuilding and repair industry would be expected to surge to accomplish a multitude of missions. Initial surge requirements would have to be completed within 20 days of M-Day (Mobilization Day) and would allow little expansion of the existing work force. Missions to be accomplished would include activation of the Ready Reserve Fleet in accordance with the 5-10-and 20 day schedules; installation of sealift enhancement features; activation of inactive ships in Navy custody, currently 29 combatants and major auxiliaries are considered assets; repair of battle damaged ships; completion of Navy ships undergoing maintenance or repair; and new construction.

Shipbuilding and repair facilities have been shrinking dramatically with the Navy currently accounting for 90 percent of the workload in private shipyards today. The cadre of workers engaged in commercial shipbuilding has decreased from 14,000 in 1981 to fewer than 1,000 today. The decline of the shipyard suppliers has followed the general industry decline. Several critical industries required to produce shipbuilding components and systems have been reduced to bare minimum levels. These components include propulsion equipment, reduction gears, electrical and electronic equipment, shafting, propellers, deck machinery, and basic commodities such as steel plate, ball bearings, valves, and many others.⁵

The Denton Commission concluded that shipyard manpower would

not prohibit the accomplishment of most initial surge requirements at M-Day, either presently or in the year 2000, although certain geographical areas would experience a slight shortfall. However, long term requirements beyond 90 days could not be met, either currently or in the year 2000 without significant increases both in manpower and shipyard capacity. Additionally, the shipyard supplier capability is also seriously degraded and dependent upon foreign manufacturers to supply critical subcomponents for some major end items.

ENDNOTES

1. Jeremiah Denton, et al., First Report of the Commission on Merchant Marine and Defense: Findings of Fact and Conclusions, p. 15.

2. Ibid., p. 35.

3. Ibid., p. 30.

4. Robert Holzer, "Fast Sealift Program Floats Despite Shifts in European Politics", Defense News, 1 January 1990, p. 4.

5. Jeremiah Denton, et al., First Report of the Commission on Merchant Marine and Defense: Findings of Fact and Conclusions, p. 41.

CHAPTER III

ASSESSMENT

The maritime industry is expected to provide the majority of our strategic sealift; qualified personnel to man those vessels, as well as ships in reserve status; and a shipbuilding and repair industry capable of supporting strategic sealift and the wartime requirements of combatant naval forces.

Although I cannot dispute the Denton Commission's facts and figures, the assumptions utilized to arrive at their conclusions clearly present a worse case scenario, perhaps one which prohibits a cost effective solution, particularly in these days of budgetary constraints.

The Commission made three assumptions which I believe skew their analysis. The first is that we will be involved in a three theater global war. Although I believe that a three theater global war is a possibility, I don't believe that we, let alone the Soviets, have the manpower, logistics capability, or industrial base to fully support three theaters. At best, we would have to conduct economy of force operations in one or two theaters while attempting to bring about a rapid termination of hostilities in the other(s). Secondly, it is unreasonable to believe we would "go it alone" in any theater during a protracted three theater war without receiving significant assistance from our allies in the other theaters. To go it alone in any theater without being able to project adequate manpower and logistics would endanger the force. Thirdly, although not permitted to use foreign flagged ships in their analysis, I believe that the

Commission needs to recommend that the Department of Defense determine the number of foreign flagged vessels that operate in U.S. contiguous waters which could be reflagged during national emergencies, i.e. reflagging cruise ships to use as troop carriers, etc.

As the number of ships decline, maritime manpower and the shipbuilding and repair industry decline with it. Seagoing manpower analysis indicates there will be a critical merchant marine seaman shortfall by the year 2000. However, manpower is directly related to the number of ships in the fleet. Unions have had to restrict memberships in recent years due to declining job opportunities. Maritime academies/colleges exist in five states and the Great Lakes region and have the capacity to supply the requisite number of mariners if job opportunities become available. However, because of the recent paucity of jobs, fewer and fewer United States Merchant Marine Academy and state maritime school graduates find seagoing employment upon graduation.

The shipbuilding and repair industry can, with few exceptions, meet initial surge mobilization requirements both currently and in the year 2000 but could not support long term mobilization criterion. The shipbuilding and repair industry has probably suffered least in recent years due to the buildup of the United States Navy. Still the industry has deteriorated over the last 10-20 years. Major shipping companies have declined from 18 to 4 and only nine shipyards are still in business, with no oceangoing commercial ships currently under construction.¹

Part of the reason was discussed earlier, industry wide inefficiency, but recently, reduced ship construction and crew costs have slowed the industry's recovery. This despite receiving \$50.2 billion in government appropriations between 1984 and 1986. The nation's shipbuilders have recently been relying almost exclusively on Naval contracts, an outgrowth of Secretary Lehman's "600-ship Navy". Only those companies that can't compete in the Navy's program are in serious difficulty.²

Summary-

Although the maritime industry has experienced significant deterioration in recent years, it probably has not suffered any worse than the general United States industrial mobilization base. The industry can recover but significant governmental assistance, both monetary and legislative is required. Specific recommendations will be presented in the following chapter.

ENDNOTES

1. Duane H. Cassidy, "Decline of the Merchant Marine Is Critical", ROA National Security Report, May 1989, p. 7.

2. Andrew E. Gibson, "Task of Rebuilding Merchant Marine Rests Squarely With President," The Almanac of Seapower 1990, 1 January 1990, p. 66.

CHAPTER IV

CRITIQUE OF THE DENTON COMMISSION'S RECOMMENDATIONS

The Denton Commission made numerous recommendations requiring action by the Executive Branch, Congress, and private industry. I concur with the majority of those recommendations but believe that the Commission has focused primarily on government involvement rather than on improving the competitiveness of the maritime industry. As relations warm with the Soviet Union and the federal debt continues to increase, it is unrealistic to believe that Congress and the American public will support any program which significantly adds to that deficit, especially as we look to reap the benefits of a "peace dividend".

There are those who propose the reinvigoration of the maritime industry be funded primarily from the Defense budget, particularly the Navy's budget. Unfortunately, the Defense budget cannot support such a recommendation and still fund essential military equipment such as tanks, aircraft, and a modernized Navy. Although the Navy has spent more than \$7 billion dollars in recent years in a variety of programs designed to upgrade our strategic deployment capability, to include fast sealift, its primary mission remains sea control, particularly the sea lines of communication. Any delay in the accomplishment of that primary strategic mission will ultimately prove detrimental, perhaps even deadly, to the merchant marine.

The Denton Commission's proposal which recommends a national security sealift policy, I fully concur with. The initial

summarized policy published by the National Security Council was a good first step in resolving the problem. However, other governmental agencies must share the same interest as initially displayed by the National Security Council.

The Denton Commission made several other recommendations I do not fully concur with. These are:

1-A meaningful Operating Differential Subsidy(ODS) reform package which would apply to all carriers.

2-A national program for merchant ship construction in United States shipyards.

3-A program to strengthen and expand existing cargo preference programs and legislation to increase cargo availability for United States flag ship operators and to stimulate merchant ship construction in the United States.

Although I support controlled financial incentives, the evidence provided during public hearings, articles, and independent source information obtained by Commissioner Carlson project conflicting pictures. Some firms have done poorly, while others have shown a profit. In my estimation it is essential that the Commission understand what causes the difference. Firms that operate efficiently or have implemented measures to eliminate waste, cost overruns, and ineconomies of scale should qualify for subsidies. Firms that continue to harbor and nurture inefficiency, lack progressive management and business techniques, and are slow to implement technological improvements should not be funded by the American taxpayer.

The Denton Commission heard hundreds of hours of testimony

from numerous witnesses with outstanding credentials. The Commission heard conflicting views as to the nature and magnitude of the problem. I commend the Commission on its thoroughness and professionalism. However, I believe the composition of the Commission was biased. The Commission had three members with parochial interests in the final recommendations; Mr. Haggett, President and CEO of the Bath Iron Works Corporation, a major shipbuilding firm; Mr. Sewall, Chairman of the Board of the Maine Maritime Academy; and Mr. Wall, Executive Vice President, District #1, Marine Engineers Beneficial Association/National Maritime Union. There were no members of the Commission with specific ties to ship owners or the shipping industry. Reviewing the public hearings, it became obvious that Mr. Haggett and Mr. Wall exhibited some degree of bias/prejudice when discussing the shipbuilding industry and maritime unions. The Denton Commission's findings concluded that most short term(90 days or less) shipyard commitments could be met while only longer term requirements were endangered. The Commission also concluded that most larger shipbuilding corporations were on firm financial ground because of current naval contracts. Yet in its Third Report, the Denton Commission recommended a national program for merchant ship construction in United States shipyards be implemented. This recommendation included the payment of subsidies and direct linkage with the shipping industry. The Commission also recommended in its Third Report enactment of a meaningful Operating Differential Subsidy(ODS) reform package.¹ Such a package would include subsidies for operating cost

differentials between foreign flagged and U.S. carriers. These subsidies compensate U.S. carriers for wage and crew size differences.

It is impossible to determine whether those biases influenced the Commission's judgement. Hopefully not, but because these members appeared to have a vested interest in any conclusions or recommendations the specter of doubt will always be present, especially since Mr. Carlson, a truly impartial board member, was the only member to express distinct reservations and additional comments.²

ENDNOTES

1. Jeremiah Denton, et al., Third Report of the Commission on Merchant Marine and Defense: Findings of Fact and Conclusions, p. 32.

2. Jeremiah Denton, et al., Fourth Report of the Commission on Merchant Marine and Defense: Recommendations-A Plan for Action, p. 21.

CHAPTER V

RECOMMENDATIONS AND CONCLUSIONS

Recommendations-

I thoroughly concur with the Denton Commission's recommendation of greater involvement by the Defense Department in identifying the shipping, manpower, and shipbuilding and repair requirements for the future (year 2000). The Department of Defense and other government agencies have been remiss in determining the specific maritime requirements that would be needed in time of war.

I recommend that the shipping and shipbuilding industries be decoupled. It is unfair to expect one portion of the industry support the other. Such a policy promotes ineconomies of scale. The federal government will still be required to provide assistance to each sector based upon efficient utilization of assets, but to direct the shipping industry to participate in programs such as "Procure and Charter" too closely links one with the other. Build parallel but not direct linkage programs.

Second, I recommend the consolidation of all National Maritime Policy in a single source document. We currently have maritime policy contained in the Merchant Marine Acts of 1920, 1936, 1970, and numerous other policies that are no longer applicable in today's world. The resulting Act should be reviewed and updated at least biannually. Responsibility should be shared by the National Security Council and the Maritime Administration.

Third, we must promote and reward efficiency and

technological innovation while removing impediments to international competition. This includes reducing crew size by cross training and licensing, implementing advanced concepts of computer integrated manufacturing systems in the shipbuilding industry, combining the design and production functions in shipbuilding, eliminating the adversarial relationship among labor, management, and government, and ensuring consistent governmental policies towards the industry.

Lastly, I wholeheartedly support the Commission's recommendations in the following areas:

-The Department of Defense and the Military Sealift Command should award a certain percentage of sealift cargo to shippers based upon a flat, stable rate system and the shippers contribution to strategic sealift. (i.e. Encourage militarily useful vessels to carry DOD and MSC cargos by paying a stable rate rather than awarding all contracts to the lowest bidder, often at rates less than prevailing commercial rates.) Although this may not be cost effective, it should promote the procurement and use of militarily useful ships.

-Reimplement subsidies to shipbuilders who have implemented economies of scale to compensate for foreign differentials which cannot be met in U.S. shipyards (primarily wage differentials). Include 2nd tier shipyards as full participants in any subsidy programs.

-Compensate ship operators and shipbuilders for operating and building militarily useful vessels which are not competitive with similar commercial ships.

-Share the research and development funding effort between DOD and the maritime industry to improve competitiveness and efficiency.

-Ensure any cargo preference programs are consistent with foreign programs so foreign sanctions will not be imposed upon U.S. shippers. Create a fair trade environment by removing impediments to U.S. foreign trade. Apply sanctions against foreign traders who do not compete fairly.

-Stimulate the construction of military ships for foreign military sales. Actively pursue the FMS market.

I believe the implementation of the before mentioned recommendations will invigorate the maritime industry. However, the most important aspect is for the industry to actively promote itself before the American people and Congress. Military sealift and a healthy Merchant Marine Industry is of vital importance to our national strategy, but the industry must take a more active role in their own rejuvenation. Congress and the military cannot do it for them.

Conclusions-

Although I would like to be optimistic about the future of the U.S. flag merchant marine, I believe the future remains bleak. National security policy cannot be implemented in time of war without sufficient sealift. The United States holds a unique geopolitical position as a superpower, economic giant, and one of the largest trading nations in the world. Yet our merchant marine has declined to the extent we can no longer meet our national sealift requirements. We have become dependent upon

foreign flag carriers to meet our maritime needs. To implement the Denton Commission's recommendations would require a minimum net expenditure of \$3+ billion over eleven years. In comparison to annual defense expenditures, the billions required to alleviate sealift shortfalls seems almost trivial, especially when compared to the risk we accept for failing to meet the challenge.

However, in this era of budgetary constraints the drain on the federal budget and especially the defense budget is difficult to justify. It is unrealistic to assume, given the \$3 trillion national debt, the federal budget deficit, a declining budget, and ever increasing demands on government spending that maritime industries can continue to compete for federal dollars at present, much less increasing levels.

The Soviet policy of "glasnost" makes the maintenance of the merchant marine, let alone its expansion, seem less important than in the past. This is a dangerous line of reasoning as we must guard against enemy capabilities rather than intentions. Yet, the allure of "glasnost" and "perestroika" is a tempting excuse to those seeking initiatives to reduce government expenditures and balance the budget.

Although I agree with the basic findings of the Commission on Merchant Marine and Defense, I believe their recommendations are too expensive and cannot in good conscience be implemented. The recommendations of this paper are least costly and recommend that the United States government subsidize only cost effective industries in those areas where they cannot compete with foreign

competitors. Realistically, implementation of these recommendations may be more that Congress is willing to bear in today's atmosphere. I remain pessimistic that decisive action will be taken soon. The deterioration of our merchant marine seems to be a problem that the industry will have to resolve itself. Meanwhile, our nation will face not only a national dilemma but may face a full scale military emergency should we be asked to respond to a worldwide conflict. Let us hope we never will.

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